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WORKING PAPER

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INTELLIGENCE HIGHLIGHTS NO. 42
2 March - 8 March 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The Commonwealth Conference's offer of conciliation in the Karen-Burman dispute will probably be rejected by the Burmese Government (p. 2)

The Japanese Government is expected to halt payments of "anti-strike" subsidies which have cost 4 billion yen (p. 2).

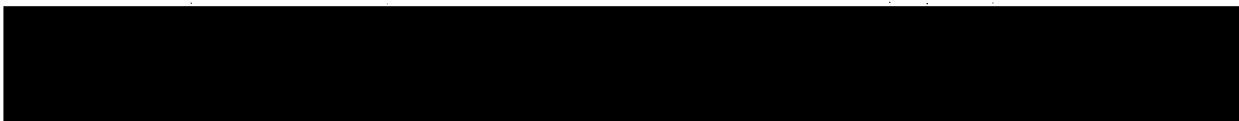
The Korean Assembly has blocked President Rhee's plan to soften application of the National Traitors Act (p. 3).

Acting President LI's "unofficial" peace mission has reported details of discussions with Chinese Communist leaders (p. 3). Communist public utterances, meanwhile, have resumed a belligerent tone and renewed military activity in the event of a breakdown in peace talks is a strong probability (p. 4).

The constitutional steps necessary to legalize Cochinchina's entry into a unified Vietnam are the subject of present adverse discussion (p. 8).

The settlement between Army and Navy in Siam has proved to be so narrow in scope that there is a possibility of renewed violence in Bangkok (p. 9).

The Indonesian Federalists are swinging their support to the Republican camp, to the embarrassment of the Dutch (p. 9).



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The marginal notations used in succeeding sections of this Weekly ("A", "B" or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Burman acceptance of Commonwealth conciliation doubtful. No Burmese answer to the Commonwealth Conference's joint communications, couched in most sympathetic terms, offering to assist in conciliating all of Burma's internal difficulties has been received and Burmese officials are reportedly disappointed and indignant that the New Delhi meeting did not approve a large loan without conditions. Since the Burmese Government has already rejected Prime Minister Mehru's personal offer to mediate the Karen-Burman strife, acceptance of Commonwealth conciliation is doubtful. The worsening political, economic and military situation, however, might possibly force the Government to submit to conciliation eventually, in order to obtain desperately needed financial assistance. Even if conciliation is accepted, the Burmese Government will continue to view the Commonwealth action as an unwarranted foreign intervention. Furthermore, acceptance of conciliation might lead to a serious split between moderates and extremists in the Burmese Socialist Party which controls the Government, thus leading to even further anarchy in Burma. Current rumors that the new Supreme Commander, Bo Ne Win, is planning a coup d'etat, presumably with the support of the extreme left-wing Socialists under U Ba Swe, may stem from this situation and account, in part, for Government reluctance regarding conciliation. The major blocks to conciliation, however, continue to be: (1) Burmese conviction that they can win the fight, and; (2) strong antipathy to foreign interference.

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Even if conciliation were successful in reaching some sort of an agreement and a loan were extended, it is extremely doubtful that any long-term improvement in the Burmese situation would result. Implementation of any agreement would be nearly impossible in view of unchecked racial animosities, while extremist Burman and Karen elements would continue to be uncontrollable and various Burman political splinter groups--such as Communists and PVOs--would not consider themselves bound by any agreement.

JAPAN

Withdrawal of "anti-strike" subsidies expected. The Japanese Government may "C" cease payment of so-called "anti-strike" subsidies, amounting to 4 billion yen, which have been allocated in the past to certain critical industries. Formerly, when demands for wage increases which could not be met out of earnings threatened the coal, electric power, non-ferrous metal and other important industries with strike action, it was the Government's practice to allocate sufficient funds to these industries to permit the wage increase regardless of cost.

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JAPAN (continued)

Removal of such subsidies is in line with SCAP's plan to put Japanese industrial operations on a more businesslike basis. Without such support, it is hoped that the paternalistic management of these concerns will be forced both to discharge surplus workers now padding the payrolls and to institute more efficient methods of production. Although the Government will be forced to support such dismissed employees through large-scale public works programs, it is hoped that elimination of "anti-strike" subsidies will eventually ease the Government's financial burden.

KOREA

Assembly refuses to soften National Traitors Act. President Rhee has failed to induce the National Assembly to transfer administration of the National Traitors Act from Assembly to Executive jurisdiction. Vigorous implementation of the Act by the Assembly's Special Board will result not only in the punishment of "vicious" or "malicious" anti-nationalists, but also in the dismissal from the Government of all Korean officials who are judged to have been "pro-Japanese" in the past.

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Since most experienced and capable Korean officials fall in to this "pro-Japanese" category, President Rhee had hoped to take over operation of the purge himself and thus keep many such officials, particularly in the National Police, at their posts during the present critical formative period. A majority in the Assembly, however, reflecting the Korean people's hatred of all things Japanese, continue adamant in their insistence that all "pro-Japanese" officials be punished or purged from the Government.

CHINA

Report of the unofficial peace mission. With the return of the "unofficial" peace mission from Peiping, Li Tsung-jen seems to have made another gain in his efforts to seek peace with the Communists. Headed by W.W. YEN and accompanied by SHAO Li-tse, the mission met with Communist leaders MAO Tse-tung and CHOU En-lai at Shihchiachuang. The mission, stating its belief that prospects for peace with the Communists seem to be very good, reported the following results of its talks with the Communists: 1) the Communists seem willing to modify their "eight demands" somewhat, 2) a tentative agreement to convene the "official" peace meeting sometime after 15 March was reached, 3) Communists continue to insist on the arrest and punishment of the "Big 4 families" and the severance of Kuomintang-American "imperialism" ties, 4) MAO Tse-tung and CHOU En-lai stated that before actual negotiations could take place it would be necessary to call a secret convention of the Communist leaders in order to win the extreme elements within the Communist Party to the

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support of peace. 5) CHOU, in replying to SHAO's request that the Communists issue a cease-fire order, stated that this was impossible because of disagreements within the Communist Party. (If true this may represent friction with the military who desire to continue the military offensive), 6) The Communists proposed that the future government of China eventually be composed of three equal groups of Communists, Kuomintang members and non-partisans.

Following the mission's return LI, has continued efforts to strengthen the National Government. After a southern trip during which he made numerous speeches avowing peace, LI called a conference of top-ranking military and political leaders for the purpose of strengthening internal unity and determining a program for peace discussions with the Communists. Further indication of LI's sincerity in seeking peace is his recent request that the US delay munitions deliveries to China for the next few weeks.

The initial optimism created by the peace mission's report was countered to some extent by the renewed belligerent and intransigent tone of Communist broadcasts and public utterances of Communist leaders. Also on the negative side was the failure of the Communists to set a definite date or place for official negotiations, revealing a continuing lack of final decisions in the high quarters of the Communist Party. The Nationalist press reports that the Communists not only are suspicious of the formation of joint defense systems in Government areas, but also believe that the peace advocates in the Government camp are progressive elements with no power, while the power groups, under the guise of peace, are preparing for continuing war with the guidance of the US.

Communists reaffirm intention to take all China. General LIN Piao, commander of the Northeast (Manchurian) People's Liberation Army (NEPLA), and concurrently commander of the NEPLA's Peiping-Tientsin Front Headquarters, admitted in a speech last week that Communist military gains have outrun political preparations, but emphasized that the Communists do not intend to confine themselves to areas north of the Yangtze.

"That the Kuomintang must necessarily lose was long ago affirmed by us," Gen. LIN stated in a welcoming address to "democratic personages" in Peiping, "but the swiftness of their defeat was beyond our expectations." Although "war on a gigantic scale is impossible south of the Yangtze," nevertheless "the peace which people throughout the country demand is... not a peace with the Yangtze as a boundary line.... The reactionary forces must be thoroughly smashed. The governmental power must be handed over. All reactionary armies must be reorganized."

Although the Communist armies "have the strength to sweep away all reactionaries," said Gen. LIN, the Communists wish "to reduce the destruction of war and to preserve the manpower and material power of the people," and therefore are "adopting the method of peaceful settlement...." "We warmly welcome the Peiping type of peace," he continued, (but) "against the reactionaries who are unwilling to accept the Peiping method, we

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cannot but resort to the Tientsin method. We welcome you...to help us realize the Peiping method of peace south of the Yangtze River."

Gen. LIN's statement of the Communist position is probably correct: i.e., that the Communists have not altered their expressed intention to extend their control over all of China and to destroy all significant military and political opposition, but that the Communists prefer to take over gradually, on a regional rather than national basis, and to establish that control by political rather than military means, retaining the services of elements previously in opposition so long as those elements are useful.

In whatever negotiations the Communists may undertake with Acting President LI's regime, the Communists probably will seek the realization of the above program. In the negotiations, therefore, LI's regime would not in fact be a "National Government" concluding a "national" agreement, but a single regional regime assisting the Communists in conclusion of a number of other regional agreements.

In such agreements, the Communists will of course apply the Peiping formula wherever possible: negotiated surrender, leisurely "reorganization" of Nationalist armies, and utilization, under tight Communist control, of the Nationalist authorities. But if the opposition refuses to deliver its armies for "reorganization" and refuses to submit to Communist political dictation, the Tientsin formula can and will be employed: military assault, harsh occupation, and liquidation or suppression of the Nationalist authorities.

While peace negotiations with LI's regime are in process, the Communists will continue to hold their armies in readiness on the north bank of the Yangtze. They will continue to plan, together with the representatives of anti-Nationalist groups and Communist fronts who heard Gen. LIN's speech, a Political Consultative Conference (PCC) which will form and proclaim a Communist-controlled government of China within the present year. If peace negotiations with LI's regime are not successful, the PCC will convene without the participation of any Nationalist leaders and groups not already allied with the Communists and the Communist armies will resume their southward drive. Even if negotiations with LI's regime are successful, Communist armies will continue to lay plans for the Yangtze crossing and prepare to take the offensive against any Nationalist forces which, then or later, resist annexation by the Communists.

Developments on Nationalist-Soviet economic pact for Sinkiang.
Negotiations for a Nationalist-Soviet economic pact for Sinkiang are reportedly proceeding in Tihwa. Though phraseology such as "Sino-Soviet cooperation on an equal basis" may be written into the text of the pact, conclusion would actually constitute legal cover for Soviet mining and trade monopolies. In addition, a press report from Tihwa announces approaching negotiations for renewal of the Civil Air Agreement, due to expire in September.

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Acting President LI Tsung-jen favors conclusion of the pact, on the ground that treaty relations with the USSR regarding Sinkiang are preferable to uncontrolled Soviet penetration there. However, the proposed pact is opposed by the Foreign Ministry, headed by the pro-CHIANG WU Te-chen, on the ground that the granting of monopolies to the Soviet would be detrimental to "national sovereignty." A Foreign Ministry memorandum to Premier SUN Fo recommended that the pact: 1) be limited to five years, 2) include a most-favored-nation clause which would strip it of its monopolistic feature, and 3) list specific mining concessions to be developed by the USSR, instead of granting blanket mining and exploration rights.

Meanwhile CHANG Chih-chung, Commander of Northwest Headquarters, has returned to Nanking from Lanchow and has apparently withdrawn his twice-submitted resignation as a member of LI Tsung-jen's official peace mission to the Communists. Though CHANG was reportedly granted plenipotentiary powers by Premier SUN Fo to negotiate a Sinkiang trade pact with the USSR without further reference to the National Government, SUN Fo has recently insisted that no commitments can be made without Foreign Office approval. CHANG appears to be very anxious for conclusion of the Sinkiang pact in order to assure himself a prominent role in the Northwest. He is now working to secure Foreign Office approval, using the argument that such a Nationalist-Soviet Agreement could not be attacked by the Communists without compromising their relations with the USSR, and would therefore strengthen the Nationalist bargaining position in the coming peace negotiations.

North China depression due to communist application of trade policy. Application of Communist commercial policy in North China continues to vary in different areas, but active commerce with areas outside of Communist China has not been stimulated. Announced commercial policy has consistently been free domestic trade and controlled foreign trade (that is, permitting imports of necessities and exports of surpluses), but little encouragement has been given this policy. The Communists have merely acquiesced to some extent with arrangements made by Nationalist and foreign shippers. While the recent interchange between the Shanghai Shipping Association and MAO Tse-tung in Peiping brought forth Communist protestations of their desire for trade, little positive action was taken other than to approve the already existing barter transactions between the Central Trust in Shanghai and the Kailan Mining Administration in North China.

Shantung Province has recognized the existence of trade by announcing import and export regulations which prohibit the import of luxuries, "non-essential" goods and permit free import of "steel, iron, trucks, pharmaceuticals and others." Regarding foreigners trading into Tientsin, some clarification may be expected soon.

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The damage to the economies of the Hopeh and Shantung coastal cities as a result of Communist commercial inaction is already apparent. In Tientsin, where even normal shipping is not yet permitted, half the population, or perhaps a million people, are directly or indirectly dependent on the export trade. Unemployment is reportedly very high and much of the city's industry is idle. Peiping is also badly hit; the US dollar has risen five times in terms of People's Bank currency since its occupation, and the black market in greenbacks, gold and silver is so flourishing that it was officially banned on 28 February, apparently without much success. In Shantung, a depression is not so apparent, chiefly because normal shipping is permitted in ports like Chefoo and Shihtao, and because a small trade with other Communist areas, Shanghai and Hong Kong has existed for some time. However, resumption of normal trade markets and more efficient collection and delivery of export commodities to the ports would result in increased prosperity for the area.

Economic insulation from the National Government is being achieved in some degree by every non-Communist Chinese Province, including Taiwan. The Ministry of Finance admits that Provincial tax payments are greatly reduced and that the loss of such revenue appears to be permanent. The transmission of gold and silver out of Yunnan and Hunan is now prohibited. The chief source of revenue remaining to the National Government, the circulation of the gold yuan, is being increasingly restricted by Provincial government actions. Taiwan has had a separate and more stable currency for several months. The Hunan provincial government has recently announced the issuance of its own currency based on silver, while other provinces, notably Yunnan, Szechuen and Kansu, have announced their intentions to follow suit. Repudiation of the gold yuan is general throughout China. In inland China, silver dollars are in many places the sole accepted currency, thus restricting circulation of the gold yuan to the coastal cities, where foreign currencies are increasingly substituted.

Communists reportedly planning new military operations. Despite current peace maneuvers, the Communist High Command is reported to have concluded plans on 12 February at Shihchiachuang for a mass crossing of the Yangtze to be executed during the last two weeks of May. The plan embodies major crossings between Nanking and Shanghai; near Wuhu; in the Hankow sector; and west of Hankow. The mission of the Communist armies is said to be the occupation of the Yangtze valley and its major cities. An interesting aspect of the reported plan lies in the scheduled utilization of LIN Piao's Manchurian armies in the Hankow sector.

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The plan, if obtained surreptitiously as claimed, represents either sound Communist military planning or a Communist 'plant' to encourage peaceful capitulation of these areas. On the other hand, this 'information' may be a Nationalist 'plant' on the part of LI and his cohorts to enlist Kuomintang hold-outs to his peace cause. If the 'plan' is given wide publicity, this may well be the result.

INDOCHINA

Cochinchina Territorial Assembly issue. Reaction to the French Government's bill for the establishment of a Territorial Assembly in Cochinchina has ranged from tentative approval to diatribe. The Assembly of the French Union, (AFU) a purely advisory body for legislation concerning the overseas areas, will consider the proposed bill on 9 March. An expected favorable recommendation by the AFU may strengthen the Government's position in the National Assembly debate on the Indochina question as a whole scheduled for 11 March.

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The question of a new Cochinchina Assembly relates to the necessity for a constitutional change in the colonial status of Cochinchina before it may be unified with the protectorates of Tonkin and Annam to form the unified "three Ky" state of Vietnam. Articles 75 and 77 of the French Constitution - - which specify that modifications of states within the French Union may take place only as the result of a law passed by the French Parliament after approval both by an elected Territorial Assembly and by the AFU - - are involved.

The present Assembly of South Vietnam, in a self-interested move to avoid election of a new body, has declared itself "in fact a territorial assembly of Cochinchina", and adopted a resolution requesting the French Parliament to take prompt and unequivocal action on the unity and independence of all Vietnam within the French Union. It is doubtful whether the South Vietnamese Assembly will be successful in this move to preserve itself.

An influential Vietnamese editor in Saigon, frequently quoted by the US Consulate General, characterized the projected assembly as a "motley monster born of haste and formalism which will be elected in name only." He attacked the rumor that those Vietnamese members of the present Assembly who favor unity with Tonkin and Annam would not be eligible as candidates for the new assembly, while French members who support Cochinchinese autonomy may stand for election. The editor concluded that "equity, logic and legality" have been ignored in frantic preparation for Bao Dai's return.

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SIAM

Uneasiness in Siam expected to continue. The settlement reached by a joint Army-Navy committee, established last week after the abortive coup d'etat attempt, has proved to be much less extensive than expected. Far from solving outstanding political differences, the agreement is confined to a delimitation of the functions of the Armed Forces. As announced by Premier Phibul, last weekend, the settlement: (1) agrees to withdrawal of Army and Marine reinforcements from Bangkok, (2) limits future use of the Armed Forces to national defense and, (3) charges the Police with exclusive responsibility for maintenance of order, except when the Government may authorize employment of the Armed Forces.

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Notwithstanding some Army support for the Navy effort to reduce Army Deputy C. in C. Kach's power, it is doubtful if his strong control over the Army will be weakened for the present. Current uneasiness was heightened by the recent arrests of many Free Thai partisans and the [REDACTED] last Friday of four important followers of Ex-Premier Pridi. These late developments, in addition to the existing Navy and civilian antagonism toward the Army members of the Phibul regime, may result in further violence. There is every likelihood that this tense, unsettled condition will exist during the next few months.

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INDONESIA

Dutch may lose support of Indonesian Federalists. The Federalist Indonesian Assembly is scheduled to meet 10 March to vote on a resolution supporting the Republican demand that its leaders be restored to governmental authority at Jogjakarta. On 3 March, the Federalist Assembly voted unanimously to back the Republican position. Later, Sultan Hamid, the pro-Dutch chairman of the Federalists, insisted that the Federalist decision was a feeler directed toward Netherlands policy and that it was in no sense final. Hamid's last-minute effort to equivocate was probably occasioned by High Representative Beel's disapproval of the Federalists' action. The majority of the Federalists, headed by Anak Agung of East Indonesia, feel that their pro-Republican resolution should stand and that a last-minute switch of allegiance back to the Dutch would brand them as "puppets." If the Federalists succeed on 10 March in reaffirming their earlier support of the Republic, the Dutch will have lost one of their strongest arguments for the current "plan" to solve the Indonesian problem.

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